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## ISSUES ON FISCAL POLICY OBJECTIVES IN ROMANIA AFTER 2000

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**BUNESCU Liliana**

*Lucian Blaga University of Sibiu, Romania*

**COMANICIU Carmen**

*Lucian Blaga University of Sibiu, Romania*

### **Abstract:**

*Financial policy differs from one country to another depending on the country's economic potential, the level of economic development, natural resources, national or international conditions, methods of managing the national economy, the interests of political parties and other factors. But, we should not overlook the fact that economic and financial experience of countries can provide models to be applied in other countries. In terms of financial policy, budgetary policy and fiscal policy are the most important.*

*This paper aims to compare the objectives of fiscal policy in Romania during the last three programs of government in the period 2001-2012 and, under the Romanian fiscal responsibility law, to underline the principles they are based on.*

**Keywords:** *fiscal policy, fiscal responsibility law, fiscal policy objectives, budgetary policy*

### **1. Introduction**

According to the Romanian Language Explanatory Dictionary, the term "politics" comes from Latin and refers to "all goals and objectives pursued by social classes and groups to fight for their interests, the means for achieving these goals and objectives." However, politics is, pragmatically, defined as a form of human community organization and management for achieving its interests or as a set of decisions taken by the authorities to organize and conduct economic and social activity. In this sense, it manifests itself at all levels and organizational structures of society. Whatever the concept of policy is defined, it directly involves methods and means of action, which are specific for human activity's fields.

To speak about budget theory and policy development involves a wide range of different elements: the budgetary provisions, principles to be observed, the

classification of expenditure, political purposes to serve the budget process, descriptions and analysis of how national systems have evolved.

This paper aims to examine the objectives of fiscal policy in Romania from a theoretical perspective. The paper is structured as follows: the introductory part briefly presents the financial policy as part of the economic policy and its role in the economy. The second part details some issues on tax policy principles existing in the Romanian legislation, and, the third section discusses the interdependent nature of financial policy with the other components of economic policy. This section contains the budgetary and fiscal policy objectives found in the programs of Government in Romania after 2000. In the last part of the paper are listed some of the world countries experiences in setting fiscal policy objectives. Among the research methods used can be found traditional methods such as classification, synthesis, induction, deduction and theoretical investigation.

## **2. The role of financial policy in the economy**

Economic policy is a component of state's general policy. It is recognized that, a public policy promotes specific interests, which generally correspond to the society's objectives. As to achieve a sustainable economic policy is imperative an effective coordination of the mentioned policies. Each type of policy has its own identity, but also they are integrated in the economic policy as a whole by their content and tools, by dynamic and interdependent relationships.

Considered separately, financial policy expresses the choices on methods, means and institutions of financial nature. These are involved in the procurement, allocation and utilization of financial resources, including arrangements that influence social and economic activities in the desired direction. In a narrow sense, the financial policy concept is used for the purposes of public finance policy, to describe the phenomena that give rise to a public task, which is based on the financial factor. However, given the broad meaning of the finance, is looming a more comprehensive notion for "financial policy". In this sense, there can be distinguished several components of the financial policy, including: fiscal, budgetary, monetary, currency policy etc. The financial policy is required to determine both the amount and source of financial resources, on the one hand, and on the other hand, to underline the social and economic effect of using these resources. (Comaniciu, 2005)

Financial policy has a range of financial instruments which can influence the social and economic processes in order to achieve economic equilibrium. The financial policy is related to the other components of economic policy, working together to fulfill its objectives: economic development, upgrading and modernization of national economy sectors, more equitable income distribution, etc.

Financial policy may contain specific elements, both strategic and tactical. The first items are materialized by the financial policy decisions on the achievement of longer-term objectives and more extensive, as reflected in the financial plan. In

principle, it is recognized that financial policy decisions, determined by coordinates for a given stage of evolution of society, are reflected in longer-term financial programs and represents the financial strategy. The administrative plans and programs for short periods are components of financial tactics. (Filip G., 1999, p. 233) The structure of the financial policy on strategic and tactical elements is present at different levels that take financial decisions and their implications are included in results achieved by each functional component. If financial strategy and tactics are different in terms of the relevant time horizon, it is not always easy to delimit the boundary between the two concepts.

The financial policy directly influence the growth and modernization of the country's productive potential, the distribution of this potential on the national territory, the increase of efficiency for entire socio-economic activities, to maintain the integrity of public assets, the evolution of population living standards. (Ungureanu M.A., 2007, p. 29).

Financial policy differs from one country to another depending on the country's economic potential, level of economic development, natural resources available (Văcărel, 2006, p. 111), domestic and international conditions, management methods of national economy, the interests of political parties and other factors. But, we should not overlook the fact that economic and financial experience of countries can provide models to be applied in other countries.

Budgetary policy, as part of financial policy, represents all the activities that influence social and economic processes by public revenue and public expenditure. Budget policy supposes the decisions reflected in formation, distribution and use of budgetary resources, financing the budget deficit and using the public budget for GDP redistribution and for influencing the economy. Some authors consider the budgetary policy as having a complementary nature in relation to fiscal policy (fiscal-budgetary policy). Both policies are represented by all coherent instruments available to the State by which it coordinates the economic activity. In our opinion, fiscal policy is reflected in a subcomponent of budgetary policy. In simple terms, any budget, whatever the purpose for which it is used, has two parts: revenues and expenses. At the macroeconomic level, the budget includes public revenues on the one hand, and public spending on the other hand, which leads us to say that budget policy has two components: public revenues policy and public expenditure policy.

Public revenue policy aims to establish the amount and the sources of financial resources that can be purchased by the state during a given period of time, usually one year, the revenues sampling methods and the objectives to be achieved in this sector. Government revenue policy aims: the volume of financial resources needed for state functions and its tasks (their size depends on the value of gross domestic product, the tax rate and the amount of public expenditure for a specified period of time), financial resources' sources (internal and external), procedures for obtaining public money to public funds, the tax burden supported by legal entities and individuals. The volume of financial resources, that a state needs, is dependent on the amount of public spending, but between the volume of expenditure considered necessary for meeting social needs

(the demand for financial resources) and volume of financial resources possible to procure from domestic sources (the offer for financial resources), there is not always a full line: either demand for resources is greater than supply, or vice versa. (Văcărel, 2006, p. 114) But it is obvious that the amount of resources depends on the development of national economy

Tax policy refers to the choice of tax instruments, the rates at which taxes are set, the nature of exemptions and the assignment of taxes to different levels of government. A good tax system should be defined as to meet the requirements of equity in burden distribution, efficiency in resource use, the goal of macro policy and the ease of administration. It should also allow the country's authorities to implement tax policy in the most efficient way. The relationship between fiscal policy and the economic situation is characterized by reciprocity, the economic situation affects the amount of compulsory levies on the one hand, and on the other hand, their level acts on the economy status at a time. The sensitivity of tax levies to changes in economic situation refers to the speed and extent to which their performance is affected by variations in the economic activity.

Public spending policy represents all decisions taken by authorities to establish public expense having as a starting point the social needs, that must be satisfied with priority by public resources, for economic growth and a high degree of satisfaction of citizens' needs. This policy aims to establish the size, purpose and composition of public spending, a goal to be achieved with minimum financial effort through various types of expenses. Public expenditure represents the social and economic relationships expressed in financial terms, which takes place between the state, on the one hand, and individuals and legal persons, on the other hand. All these are incurred by the distribution and use of public financial resources to perform state's functions. (C. Comaniciu, 2005)

Public expenditures reflect a fundamental component of the financial policy of the state, having a profound impact on the general policy. The fact, that financial resources are limited and destinations are in a constant competition, leads to more interest on the economic efficiency and social efficiency with which each national currency is spent. In terms of public expenditures, financial policy will continually seek to establish an optimal balance between effect and effort, between efficiency and effectiveness, and the solution chosen for each type of expenditure shall be one that produces the most economic, social and financial effects.

### **3. Fiscal responsibility law and the principles of fiscal policy in Romania**

Ensuring financial balance caught the attention of both policies, public revenue policy and public expenditure policy. Is important, that through fiscal measures, to ensure a related and balanced development of public financial resources collecting process. In this respect can be noticed a trend between world governments to legislate on fiscal responsibility.

A "Fiscal Responsibility Law" is a limited-scope law that elaborates on the rules and procedures relating to three budget principles: accountability, transparency and stability. A distinction is made between a fiscal responsibility law, which satisfies four specific accountability/transparency criteria, and fiscal responsibility law-type laws, which may include a number of provisions relating to fiscal transparency, accountability and stability. (Lienert, 2010)

Usually a fiscal responsibility law would include in annual budget documents some mandatory and optional features. The mandatory components refer to a medium-term fiscal policy strategy and an annual budgetary strategy, the optional components refers to new versus existing policies, fiscal risks, tax expenditures and futures scenarios. The two mandatory elements of a fiscal responsibility law are (Lienert, 2010:

- ⇒ A medium-term fiscal policy strategy. The fiscal responsibility law would require the government's fiscal strategy and policy intentions to be published. Macroeconomic and fiscal projections, including the main technical and policy assumptions, would be prepared for a period of at least two years after the upcoming new fiscal year. The medium term budget framework would show quantified objectives and targets for the fiscal balance, aggregate revenue and expenditure, and government debt. It would also spell out the broad fiscal policy priorities of the government.
- ⇒ An annual budget policy strategy. The fiscal responsibility law would require the government to explain how the proposed budget for the upcoming fiscal year helps achieve medium-term fiscal policy objectives and targets, along with the fiscal policy measures envisaged to achieve the annual and medium-term fiscal targets. The fiscal responsibility law would require the government to explain why the government is deviating from the previously announced fiscal strategy, if this is the case.

To achieve and maintain a budgetary and fiscal discipline, transparency and long-term sustainability of public finances, the Romanian Parliament issued a law in this respect, entitled "Budgetary and Fiscal Responsibility Law." Having a budget and fiscal responsibility law is justified because it may encourage the formulation of fiscal policy decisions by providing sustainable principles and rules on revenues, debt, deficit, expenditures and risk management. Fiscal policy promoted in recent years has clearly demonstrated the fragility of the institutional framework and lack of proper rules.

In this context, the Fiscal Responsibility Law sets out the principles to be followed by fiscal policy in Romania to meet EU's long term goals and standards they must meet in order to add value to stability and economic growth: (Law No. 65/2010)

1. *The principle of transparency* in terms of setting goals and developing budgetary and fiscal policy - the Government and local public authorities are forced to do a public debate on all the necessary information to allow evaluation of the implementation of fiscal and budgetary policies, their results and the state of public finances.
2. *The principle of stability* - the Government is obliged to conduct fiscal policy in a manner to ensure predictability over medium term in order to maintain macroeconomic stability.

3. *The principle of fiscal responsibility* - the Government is required to conduct fiscal policy in a prudent way and to manage budgetary resources and fiscal risks in a manner that ensures fiscal sustainability on medium and long term. Sustainability of public finances requires that, on medium and long term, the Government should be able to manage risks and unexpected circumstances, without having to make significant adjustments in expenditures, revenues and deficit.

4. *The principle of equity* - the Government will run fiscal policy taking into account the potential financial impact on future generations and the impact on economic development in the medium and long term.

5. *The principle of efficiency* - the Government's fiscal policy will be based on efficient use of public resources. It will be defined by its economic efficiency. The public investment allocation decisions, including those funded by grants received from the European Union and other donators, will be based on the economic assessment and the absorption capacity assessment.

6. *The principle of effective management of personnel expenses paid from public funds* - the wage policy and public institutions' staff should be in accordance with budgetary and fiscal targets of fiscal and budgetary strategy in order to streamline staff expenditures management.

This law is a framework for fiscal and budget strategy of our country. Budgetary and fiscal strategy (Law No. 65/2010) is the document that establishes the public policy objectives and priorities in terms of public revenues and expenditures and, also, in terms of general government budgets and evolution of budgetary deficit/surplus over a period of three years. By 30 May of each year, the Government should approve the budget strategy for the next 3 fiscal years proposed by the Ministry of Finance. This strategy contains: the macroeconomic framework, fiscal and budgetary framework with estimates, medium term expenditure framework and a statement of responsibility.

The objectives of fiscal and budgetary policy established by the Romanian law on fiscal responsibility are:

- ⇒ to maintain public debt at a sustainable level on medium and long term;
- ⇒ to achieve a balance of public budget closed to zero over the economic cycle, while ensuring the country's competitiveness;
- ⇒ to manage resources and obligations assumed by public sector and a prudent management of budgetary and fiscal risks;
- ⇒ to maintain adequate budgetary resources to pay public debt
- ⇒ to assure a predictability of tax levels and tax rates.

Fiscal policy refers to government discretionary measures that influence the direction of the economy through changes in the level and composition of public expenditure and funding. It contributes to the economy by delivering on the three principal functions of government namely, efficient allocation of resources, fair distribution of incomes and stabilization of economic activity.

The process of choosing fiscal policy objectives is very often contradictory, that means achieving one objective can lead to failure of other targets. So, a great

emphasis is met on establishing a single objective of macroeconomic policy to allow achieving macroeconomic stabilization. Among the elements of fiscal policy and economic policy components are established relationships of interdependence. In a State evolution, budgetary policy, in general, and fiscal policy, in particular, have played a major economic role of macro-stabilization. They have become instruments of market economy that lead to the objective of dynamic economic growth, inflationary and sustainable, able to generate new jobs in parallel with the acceptance of structural reforms.

#### **4. Highlights of fiscal-budgetary policy objectives in Romania between 2001 – 2012**

To get the political power, each political party outlines its own program that establishes guidelines for its work in order to solve problems facing any kind of country. State policy, both internally and externally, is defined by the Government. Achieving the targets set in such a program involves providing the necessary resources and state intervention in the economy through economic instruments, institutions and financial regulations. Below can be found the main directions that fiscal-budgetary policy of Romania followed after 2000 during the three regimes of governance.

The primary objective of ***budgetary and fiscal policy in the period 2009 – 2012*** under Government Program is restoring the credibility and stability of public finances through:

- ⇒ establish an appropriate balance between short-term response to economic crisis and medium term goals of strengthening public finances.
- ⇒ compliance of budget deficit target in 2010 and reducing net financing need of the government sector.
- ⇒ further fiscal consolidation towards achieving the deficit target of 3% of GDP by structural measures
- ⇒ ensure medium term sustainability and maintaining the schedule for adopting the euro.
- ⇒ promote a countercyclical fiscal policy to provide sustainability of economic growth process.
- ⇒ strengthening control and increasing responsibilities of institutions outside the central government (local authorities, self-financed institutions and state companies), including reduction of state arrears.
- ⇒ tax administration reform.
- ⇒ increase efficiency and to improve budgetary and fiscal policy predictability.

To fulfill its goal in the period 2009-2012, the state should reduce the deficit to 5.9% of GDP in 2010, to streamline the public sector institutional structure, the number of employees and costs associated, to have a prudent wage policy of public sector which takes into account the macroeconomic and budgetary constraints, to promote



fiscal responsibility law, to promote budget and pension reform, to reduce the budget deficit gradually to a level below 3% of GDP in 2012, to launch a multiannual action plan to reform tax administration, to develop a centralized reporting system of costs incurred by local authorities, a better targeting of social assistance programs, to restructure over 200 existing social benefits so as to gain a complementary role, to improve the collection of taxes, to accelerate the decentralization of public administration with adequate financial resources.

Under Government Program, **fiscal policy between 2005 – 2008** has been focused on ensuring a stimulating role of taxes and duties, in order to economic increase and development, of fiscal consolidation and middle class strengthen. It is designed and implemented based on the following principles: of tax neutrality, the tax efficiency, equal tax treatment and tax law sustainability. During the government 2005 - 2008 fiscal policy was designed to work for tax producers, rather than for tax pickers. The fiscal policy should be based on a real partnership between the state and the taxpayer. **Budgetary policy between 2005 – 2008** aimed at efficiency of budget allocations based on priorities, the transparency of public expenditure, providing the multiplier effect of public expenditure on the real economy. It was designed and implemented based on the principles of minimizing the costs of revenue collection, the performance of using public funds, but on the principle of multi-budgeting too. The strength of the Government was considered to be a decrease in tax burden as a mean of relieving the tax business environment, to stimulate private initiative and to encourage the formalization of the hidden economy. Decreasing tax burden gave to Romanian business environment some flexibility, predictability and flexibility.

Under Government Program, **financial policy between 2001 and 2004**, with its two components - fiscal policy and budgetary policy - aimed at ensuring sustainable socio-economic development and improving the supply-demand ratio, stimulating growth through domestic supply of goods and services, reducing inflation and maintaining the limits of current account deficit (balance of payments), stimulating the economic sectors with potential internal and external competitiveness, attracting foreign investment and foreign loans.

Fiscal policy has sought to reduce the level of taxation, both by abolishing some contributions to special funds, and replacing the tax burden and the ratio of direct and indirect taxes, to boost employment, savings, investments, small and medium enterprises and exports. In fiscal policy terms, the Government has focused its actions to substantially increase spending efficiency and transparency as an effect of allocating public resources based on projects and programs and by establishing a coherent system of priorities within them.

The comparative analysis of government programs between 2001-2012 in terms of financial policy show that the objectives and directions of the budgetary and fiscal policy differs considerably from one period to another, from one government to another, coupled with the changes made in the international macroeconomic context. A first difference that stands out is the fact that Romania's 2009-2012 budgetary policy has as direction the budget deficit reduction and keeping it down, considering that in



the periods 2005-2008 and 2001-2004, the budget deficit did not represent a major objective of budgetary policy.

Another difference that stands out consists in the attitude of state authorities to the elements of fiscal policy: if in 2001-2004 reducing the tax burden was a priority (lower wages and social contribution, lower progressive income tax rates), between 2005 - 2008 tax reduction remains the key objective of government as with the role of incentive tax liabilities increase (the flat tax of 16%), and after 2009, with the manifestation of the increasingly obvious effects of global economic crisis and the inadequacy of public resources, is taking a position opposite to the fiscal relaxation (increase in VAT). A specific issue of the period 2001-2004 among the objectives of fiscal policy is reducing the inflation rate in Romania, which it no longer figures in the current government program.

A third difference in terms of public expenditure budget policy targets, such as in the period 2001-2004 it emphasis on performances in allocating budgetary resources, between 2005-2008 to ensure realization of public expenditure and multiannual budgeting transparency and in 2009-2012 policymakers efforts are focused on reducing public spending for fulfilling the obligations assumed when contracting loans from the IMF. As you can see, the fiscal policy in our country differs from one period to another and from one government to another.

## **5. International experiences on fiscal policy goals**

In this last part of the paper, it can be found a brief presentation of the fiscal policy objectives in United Kingdom, Turkmenistan, India and Czech Republik.

In **United Kingdom**, the fiscal policy objectives after 1999 are set on as follows: *over the medium term*, ensuring sound public finances and that spending and taxation impact fairly both within and across generations. In practice this supposes that the Government to meet taxation and spending priorities while avoiding an unsustainable and damaging rise in the burden of public debt; and those generations who benefit from public spending also meet the costs of the services they consume. *Over the short term*, the fiscal policy consists in supporting monetary policy, where possible, by allowing the automatic stabilizers to play their role in smoothing the path of the economy in the face of variations in demand (HM Treasury,1999).

The UK fiscal policy framework has been created to be based on the next five principles: transparency in the setting of fiscal policy objectives, the implementation of fiscal policy and in the publication of the public accounts; stability in the fiscal policy-making process and in the way fiscal policy impacts on the economy;

- ⇒ responsibility in the management of the public finances;
- ⇒ fairness, including between generations; and efficiency in the design and implementation of fiscal policy and in managing both sides of the public sector balance sheet.

These principles were enshrined in the Finance Act 1998 and in the *Code for Fiscal Stability*, approved by the House of Commons in December 1998. The UK

Government has two key rules that accord with these principles. These are: *the golden rule*: over the economic cycle, the Government will borrow only to invest and not to fund current spending; and *the sustainable investment rule*: public sector net debt as a proportion of GDP will be held over the economic cycle at a stable and prudent level. (HM Treasury, 1999)

The United Kingdom Fiscal Responsibility Bill for 2010 imposes a reduction of government borrowing and debt. The Parliament gets through this law a greater role in fiscal policy. The Fiscal Responsibility Bill was being introduced at a time of extremely high levels of public sector borrowing in United Kingdom due to the financial crisis. In this fiscal responsibility law can be found the follow main clauses: (HL Bill 24 2009-2010)

- ⇒ imposes a duty on the Treasury to ensure that for each of the financial years ending in 2011 to 2016 public sector net borrowing as a percentage of GDP is lower than the previous year;
- ⇒ imposes a duty on the Treasury to ensure that by 2014 public sector net borrowing as a percentage of GDP is at least halved from its level for the financial year ending 2010;
- ⇒ imposes a duty on the Treasury to ensure that public sector net debt as a percentage of GDP is lower as at 31st March 2016 than it was as at 31st March 2015;
- ⇒ imposes a duty on the Treasury to report on progress towards and compliance with the duties at the time of laying before Parliament relevant Economic and Fiscal Strategy Reports and Pre-Budget Reports. (HL Bill 24–EN, para 8)

The Fiscal Responsibility and Budget Management Act in **India** was adopted in August 2003 provide the responsibility of the central Government to ensure inter-generational equity in fiscal management and long-term macroeconomic stability by achieving sufficient revenue surplus, transparency in fiscal operations and a fiscal policy in a medium term framework. This law sets task for central Government to lay in each financial year a statement of fiscal policy: the medium term fiscal policy statement (three years rolling target for some fiscal indicators), the fiscal policy strategy statement (the state policies relating to taxation, expenditures, the strategic priorities, the key fiscal measures, fiscal management principles) and the macroeconomic framework statement. The Medium Term Fiscal Policy Statement 2010-11 provides the roadmap with fiscal deficit declining to 4.8 per cent of GDP in 2011-12 and further to 4.1 per cent of GDP in 2012-13. A focus on bringing down the level of public debt as envisaged in the Thirteenth Finance Commission's Report and as announced in the Budget for 2010-11 would anchor the fiscal consolidation process in a sustainable debt framework. The fiscal policy for the year 2009-2010 has as objectives to keep the economy on the higher growth trajectory amidst global slowdown by creating demand through increased public expenditure in identified sectors. The medium term objective will be to revert to the path of fiscal consolidation at the earliest, with improvement in the economic situation.

In **Turkmenistan**, The Strategic Planning and Economic Development Institute of Turkmenistan has identified some priorities for 2010 fiscal policy, such as: tax incentives for structural, investment and innovation shifts and the development of the private sector and free competition. The state concentrates on a system of benefits to stimulate business activities in the main sectors of the economy. Turkmenistan has as priority to reduce tax burden in a medium term perspective 2016-2020. Their plan is to attract direct investment through the tax system. In the long term (2021-2030 years), Turkmenistan tax system is aimed to stimulate research and innovation, foreign direct investment and the development of free economic zones will remain the priorities. The budget policy 2011-2015 will have in Turkmenistan as objective the financial openness of the state and a strict budgetary control at all levels of budget system.

The priority of fiscal policy for 2010 in **Czech Republik** is fiscal consolidation and improvement in the structural parameters of public finances. In Czech Republik, the fiscal objective is to achieve a general government deficit of at most 2.9% of GDP in 2013. In its policy statement, the government also set a target of balanced public budgets in 2016, providing that economic growth continues. The Czech government's fiscal objective for 2010 is to maintain the general government deficit at 5.3% of GDP.

The fiscal objectives for 2011-2013 should aim to achieve the medium-term budgetary target set for the Czech Republic within the EU fiscal rules. The Czech Republic is obliged to achieve this medium-term budgetary target, corresponding to a structural deficit of 1.0% of GDP, by credible and sustainable means as soon as possible. Taking into account the government's longer-term objectives, the medium-term objective would probably be achieved around 2016. (Czech Republik Ministry of Finance, 2010)

Fiscal policy in **Uganda** focuses on stimulating economic growth, strengthening tax administration and raising tax revenue. A flexible fiscal regime has been maintained to respond to volatile movements in the foreign exchange market, unrealized revenue performance and shortfalls in the external budgetary support.

How we can notice, a number of countries have adopted a fiscal responsibility law. Around 40% of a sample of emerging countries have embedded, at some time in the past, a fiscal rule in fiscal responsibility law-type legislation. The corresponding percentage for advanced countries is only 20 percent. (Lierent, 2010)

Ministries of Finances and academic researchers tried to explain what reasons have countries for introducing this kind of law. Let's see some examples.

**New Zealand's** Fiscal Responsibility Act was adopted in 1994 and it requires the Government to be explicit about its objectives and to explain any changes to them; ensures the provision of comprehensive financial information for informed and focused debate about fiscal policy; requires the Government to specify its intentions for fiscal management beyond the next 12 months. The law does not prescribe fiscal targets in legislation, it does require Governments to set short-term fiscal intentions and long-term fiscal objectives.

In May 2000, **Brazil** enacted a Fiscal Responsibility Law (LRF, Suplimentary Law No. 101/2000) that strengthened fiscal institutions and established a framework of

fiscal planning, execution, and transparency of public decisions. The responsibility of fiscal management was seen through well-planned and transparent public actions to prevent risks and correct deviations that may affect the equilibrium of public accounts.

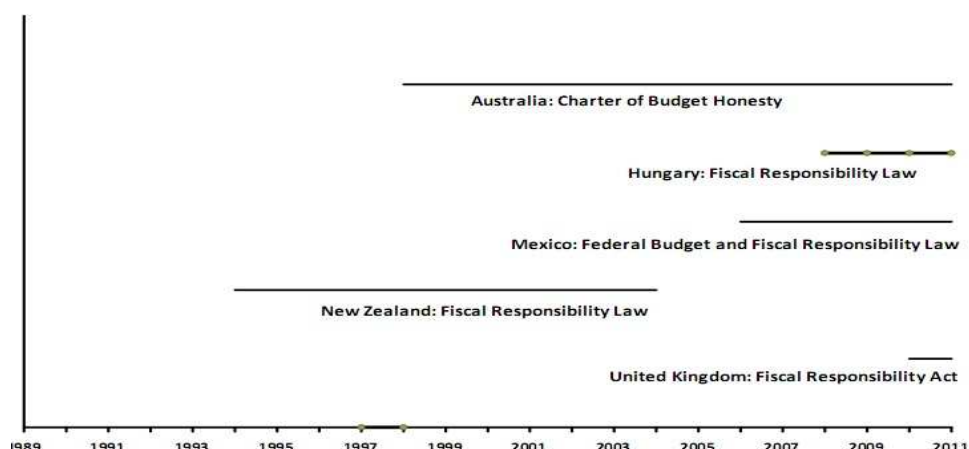
In 2003 **Sri Lanka** adopted the Fiscal Management Responsibility Act (FMRA). This law attempts to address several fiscal shortcomings, including the lack of codified rules for the formulation and execution of the annual budget in the context of strengthen transparency requirements.

**Pakistan's** Fiscal Responsibility and Debt Limitation Act (FRDLA) was approved in June 2005. The law aims to eliminate revenue deficits and reduce public debt to prudent levels by following the principles of effective public debt management. When proposing to parliament a new draft annual budget, a government should be explicit about its fiscal policy intentions.

Reuters has communicated in November 2010 that the Croatian government proposed a fiscal responsibility law that aims a balanced budget in the coming years. As the government representative said, the goal of this law is to finance expenditures from revenues and to borrow only to repay maturing debt or finance development projects. Under the fiscal responsibility law **Croatia** plans to reduce its consolidated budget deficit by at least one percentage point a year. In 2011 the country plans a consolidated budget gap of 5.0 percent of GDP, up from 4.6 percent targeted in 2010.

In an analysis of fiscal policy objectives in the United Kingdom, India, Turkmenistan and Czech Republik may be found that they are correlated with economic situations and circumstances which are subject to these countries. So it is apparent that developing countries, which are facing to worried budget deficits, have as fiscal policy target to reduce their budget deficits as a percentage of GDP (Czech Republik, Romania, India). In Turkmenistan, the starting point is creating an economic environment capable of innovation and to attract foreign investors. The United Kingdom can afford to have a broader vision of this sector by fiscal accountability of politic deciders for the future generations.

It is apparent that developed countries do not have fiscal responsibility law (only five OECD member countries). This situation is due to the fact that their fiscal objectives can be achieved by arrangements. This kind of countries have well-established legal frameworks for public financial management. A part of the developed countries have in place institutional arrangements for providing fiscal information to the public, even institutions that are responsible of fiscal stability. In USA, for instance there is a public institution for these. President Obama created National Commission on Fiscal Responsibility and Reform to address fiscal challenges. The Commission is charged with identifying policies to improve the fiscal situation in the medium term and to achieve fiscal sustainability over the long run. Specifically, the Commission shall propose recommendations designed to balance the budget, excluding interest payments on the debt, by 2015. In addition, the Commission shall propose recommendations that meaningfully improve the long-run fiscal outlook, including changes to address the growth of entitlement spending and the gap between the projected revenues and expenditures of the Federal Government.



**Figure 1. Fiscal responsibility laws in OECD countries**

Source: Ian Lienert, *Should Advanced Countries Adopt a Fiscal Responsibility Law?*, IMF Working Papers, No 254, November 2010, pg 12

Concerning the EU countries, the 27 member states have well-known quantitative targets for debt and fiscal deficits, established by Maastricht Treaty and the Stability and Growth Pact.

## 6. Conclusions

As part of the general policy of the state, budgetary and fiscal policies are called upon to contribute to the country's economic potential and to meet in an efficient way the needs of the population, it must be continuously adapted to the demands of historical stages. In a State evolution, budgetary policy, in general, and fiscal policy, in particular, have played a major economic role of macro-stabilization. They have become instruments of market economy with the target of a dynamic economic growth, able to generate new jobs.

The connection between fiscal policy and the future economy is obvious. Fiscal policy can have important long-run effects on the health of the economy. The most important effect of fiscal policy on national saving has been through the direct government budget. When the government runs deficits, it reduce private savings, leaving less available for capital investment. So, fiscal responsibility is essential to create a better, stronger, more prosperous nation for the next generation. The economic future of a country directly depends on the fiscal responsibility.

The comparative analysis of government programs between 2001-2012 in terms of financial policy can be seen that the objectives and directions of the budgetary and fiscal policy differs considerably from one period to another, from one government to another, coupled with the changes of international macroeconomic context. The main objectives of fiscal policy in Romania remain: the restore of credibility and stability of public finances in the short and medium term which is circumscribed to budgetary

framework, to limit budget deficits, a prudent wage policy in the public sector, to improve the quality of public spending, to increase absorption funds.

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